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C O N F I D E N T I A L SECTION 01 OF 03 PANAMA 001377

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SUBJECT: PANAMA PRESIDENT TORRIJOS BOWS TO LABOR PRESSURE
BUT NOT LOW ENOUGH TO SUIT HIS OPPONENTS

REF: PANAMA 1352

Classified By: AMBASSADOR LINDA WATT FOR REASONS 1.4 (B) AND (D).

SUMMARY

11. (C) In a surprise move on the evening of June 21, as anti-CSS (social security) strikes that no one thought would last more than a few days were set to enter their fifth week, President Torrijos announced that he would "suspend" writing regulations for the June 1 CSS reform law (Law 17), pending a 90-day National Dialogue. His principal antagonist, the FRENADESSO ad-hoc umbrella strike committee, again called for the suspension of the law itself, rejected Torrijos's gesture, which was to placate striking workers, teachers, and medical professionals, and refused to attend the Dialogue. Although the Dialogue will go ahead, Torrijos appears weak for bowing to demands at all, the more so because strikes and demonstrations continue despite his concessions. His break in stride is an admission that his administration erred by rapidly pushing the reform package through the National Assembly almost without compromise. At the root of his problem is widespread lack of confidence in the GOP's good intentions, bred by years of government corruption and public cynicism. Tellingly, Hugo Chavez went out of his way at MERCOSUR last weekend in Asuncion to assure GOP officials that he was not stirring up trouble in Panama. End Summary and Comment.

Troublesome Priests

12. (SBU) On June 20 Panama City Archbishop Jose Dimas Cedenro pulled the rug out from under President Torrijos and his apparent intention to resist making concessions to anti-CSS strikers when told the press he had "humbly begged" Torrijos to suspend the law to facilitate dialogue. That statement permitted FRENADESSO (National Front to Defend Social Security) to portray Torrijos as standing in the way of a settlement. Meanwhile, the regulations that Torrijos "suspended" on June 21 actually do not change the active status of Law 17. Following a June 21 meeting with Catholic bishops, Torrijos told a news conference that collection of newly increased CSS employer and employee taxes would proceed as planned on the graduated time frame set to begin January 2006, although some deductions from previously exempt "representation expenses" already are taking place. Torrijos said he would consider "improvements" to the law (known as Law 17) that the National Dialogue proposes. Torrijos also agreed that any amendments made to Law 17 will be retroactive.

Labor Refuses to Come to the Table

13. (SBU) Striking FRENADESSO supporters, especially 20,000 SUNTRACS construction workers and 25,000 teachers, have refused to come to the table unless Torrijos suspends the law itself. Confirmed participants in the National Dialogue, set to begin June 28, include the National Council of Private Business (CoNEP), the umbrella labor union CONATO, and leaders of Panama's academic and religious leaders. (Note: CONATO has ties with Torrijos's Democratic Revolutionary Party (PRD) and has not actively supported the strikes. End Note.) FRENADESSO leader Andres Rodriguez on June 23 reaffirmed the group's decision not to participate in the dialogue and not to end the strikes or demonstrations. FRENADESSO has made little headway in courting transportation groups.

Cynical Businessmen

14. (SBU) So far, Torrijos has failed to win the confidence of the population by arguing that his measures to put CSS on a firm footing, as reflected in Law 17, are the best choices for Panama. Cynical attitudes toward government continue to color public perception of the Torrijos fiscal (tax) reforms of February and CSS reform. In one example, the GOP was caught short last week by heated anti-GOP public remarks by Panama's Chamber of Commerce president August Simons, which

seemed to play to the interests of the strikers. Although the GOP might have imagined that business would be a natural ally against labor radicals, Simons blasted GOP actions and the GOP's alleged lack of credibility for causing the public mistrust that has produced daily disorders in the streets.

15. (SBU) Simons also blamed the Torrijos administration's failure to resolve several "grave" corruption cases as contributing to public distrust. In addition, Simons claimed that in designing the fiscal/CSS reform laws, the GOP had ignored the concerns and suggestions of Panama's business community, even though it contributes \$600 million in annual tax revenues. He also alleged that the strikes, up to last week, had caused \$100 million in economic losses. Simons further claimed that CSS and tax-law changes threatened to "strangle" the economic well being of Panama's citizens. (Comment: Simons has a point in complaining about the GOP's failure to deal with notorious corruption cases. PECC, CEMIS, and several involving Mireya Moscoso all are worthy of immediate attention. Many believe that Torrijos also has failed to deal adequately with Panama's widely discredited Supreme Court, whose most recent decisions granted former presidents Moscoso and Perez Balladares immunity from non-criminal investigation. End Comment.)

Privatization of 25% of CSS Funds

17. (SBU) Torrijos has repeatedly denied any intention of privatizing CSS. But a little-noted amendment slipped into the text of the June 1 reform package by PRD legislator Pedro Miguel Gonzalez (accused of murdering U.S. serviceman Zak Hernandez in 1992) at the eleventh hour that arguably broke that pledge was signed into law along with the rest of the package without a vote. The amendment allows two private investing firms, ProFuturo and Progreso, to invest 25% of CSS funds in private securities. Several links exist between members of the current government and the financial institutions encompassed within the firms. The continuing strikes momentarily have pulled the measure from the public eye but the National Dialogue is likely to comment on it.

School's Out

18. (SBU) Labor Minister Rivera said that the public resistance to CSS reforms has been far worse than even he expected, even though several months ago Rivera had told PolOff that public reaction to the reforms would be more severe than the fight for national sovereignty. The Association of Independent Teachers estimates that of 500,000 public school students in Panama, 95% have been affected by the strike. As a result, patience for the disorders among parents faced with homebound school children is wearing thin. Also, the lost time in all probability will be tacked on to the end of the school year, thus interfering with holiday plans.

Comment

19. (C) By alienating business groups, labor, teachers, doctors, and salaried workers, Torrijos has managed to create a "perfect storm" of protest and opposition to clearly justified and overdue public policies. Inexperience plays a part here but there is more to the story. Many Panamanians nurse a festering grievance bred by the impunity with which many powerful Panamanians have looted the public purse. That grievance impels many to reject the idea that average citizens should be compelled to share the pain of increased taxes and decreased benefits.

110. (C) Also, many Panamanians vividly recall the \$110 million pillaged from CSS by military-backed PRD governments of the mid-1980s in real estate and insurance fraud schemes. Although possibly Panama's biggest public scandal, no one ever has been tried or convicted, much less accused or arrested for those misdeeds.

111. (C) Tellingly, as GOP paranoia grows about whether SUNTRACS labor radicals are getting "outside" funding, Venezuela wants to avoid the blame. Institutional Protection Service (SPI) Director Leonel Solis told Embassy staff that during the June 18-19, 2005 MERCOSUR summit in Asuncion, Venezuelan President Hugo Chavez approached Panamanian Foreign Minister Samuel Lewis Navarro and Minister of Government of Justice Hector Aleman with the following message: "Please tell Martin that I am not involved in what's going on in Panama." Solis reported that Chavez added that he would check in his entourage to see whether anyone was "making revolution on his own" and would get back to them.

112. (C) Torrijos eventually will get through the present crisis -- the number of daily marchers is dwindling and SUNTRACS workers begging contributions for their depleted strike fund are increasingly forlorn -- but moving forward he must be mindful of the corrosive accumulation of public

distrust on the legitimacy of the state. Meanwhile, Torrijos's political opposition within the PRD (Perez Balladares and his associates) and outside (Guillermo Endara, Ricardo Martinelli, the disjointed Panamenistas et.al.) are enjoying the moment and seeking their own ways to take advantage of it.

WATT